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Weekly Commentary, Selected Financial Data, and Business Indicators

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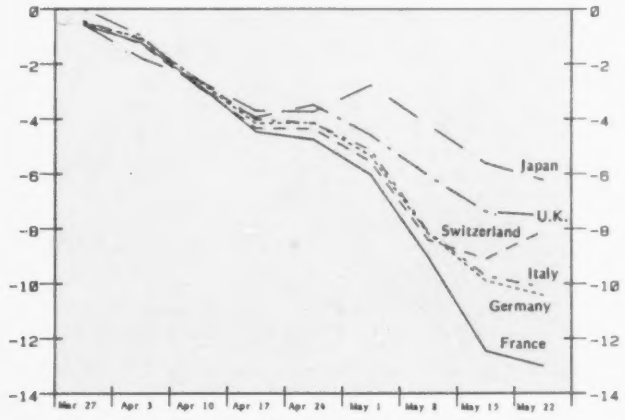
Currency Markets Are Uncertain . . .

The foreign exchange markets continue to be dominated by reactions to the election of Mr. Mitterand to the French presidency and lofty U.S. money market interest rates. These developments have added luster to the dollar at the expense, not only of the currencies of the European Monetary System (EMS) countries, but of other major currencies as well. The EMS currencies are "locked" into a fixed relationship with each other so that a decline in any one of them against the dollar results in a decline in all of them.

VALUE IN U.S. DOLLARS OF CURRENCIES:
% CHANGE FROM MARCH 23, 1981*



*Date of last realignment of EMS central parities.

Only a general agreement of all the members can change the interrelationship of exchange rates. The last such change occurred on March 23 of this year when the Italian lira, under great pressure, was devalued by six per cent against the currencies of the other EMS members. Since that date, the EMS currencies have continued to fall against the dollar (see chart). The lira has declined by 10.6 per cent in the two months since March 23 and the German mark by 10.8 per cent.

The French franc, however, has fallen by 13.4 per cent. There it has been held through massive intervention in the foreign exchange market by the Bank of France and other EMS central banks (principally the Bundesbank) in an obvious effort to keep the EMS from coming apart. Concern about the prospects of French-franc denominated assets has pushed the franc close to the bottom of the permitted area of fluctuation in the system in spite of policy measures taken by the French central bank to bolster the beleaguered currency. The dollar has been the major beneficiary of these concerns, although a rise in the value of the Swiss franc against the dollar in the last two weeks implies that at least one other currency may have benefited as well.

. . . And Weakness Is Widespread . . .

But even currencies outside of the EMS have shown significant depreciation against the resurgent dollar. In the last two months, the pound sterling has fallen by 7.9 per cent, the Swiss franc by 8.6 per cent and the Japanese yen by 6.7 per cent. As U.S. interest rates have risen and investors have moved out of the EMS currencies, the appeal of dollar-denominated financial assets has grown and with it the demand for dollars.

In some cases, the relative decline in these currencies does not reflect a related underlying economic weakness but rather, reactions to high nominal interest rates and declining inflation in the U.S. In the longer term, such economic fundamentals as comparative rates of inflation and real growth will be reflected in exchange rates. When they are, these currencies will improve against the dollar. For example, April's consumer prices in Japan were five per cent above a year ago compared with ten per cent in the U.S., while Japanese GNP growth in 1981 is expected to be close to five per cent compared with 2.5 per cent in the U.S. These prospects bode well for the yen—at least longer-term.

Yet the road to recovery for several currencies, particularly those in the EMS, will be a rough one. First, there are the prospects for interest rates in the United States to continue high for a while longer. The monetary policy of the Federal Reserve points to continued tightness, particularly if a tax cut is enacted—recent improvement in inflation notwithstanding. High interest rates and declining inflation rates are a powerful magnet that is not

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likely to be offset by the actions of the other countries because of low growth or recession in their own economies.

. . . Particularly In The EMS . . .

In France, the policies outlined by Mr. Mitterand during and since his electoral campaign and his appointments so far seem to point in the direction of rapid economic expansion. If confirmed by the upcoming National Assembly elections, employment and growth would receive priority over inflation as France's primary goals. This policy direction would be superimposed on an already high inflation rate—12.5 per cent year-over-year in March—suggesting even higher inflation in the future. When combined with the prospects for nationalization of certain key industries, the period of weakness for the franc may be an extended one.

In terms of the European Economic Community (EEC) in general and the EMS in particular, the downward potential for the franc could result in a number of outcomes, among them: (1) Another readjustment to EMS parities (in effect, a devaluation of the franc) which, after the March 23 realignment, opens up the question of EMS exchange rate stability; or (2) France may leave the EMS, which would reduce it to essentially a DM

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/20/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	130.307	+ 3.396	– .865
Loans to Depository Inst.	1.975	+ .241	+ 1.137
Float	3.009	– 1.286	– .859
Total Reserve Bank Credit	145.143	+ 1.584	+ 4.527
Treasury Deposits with Federal Reserve Banks	3.119	– .180	+ .099
Currency Outside Banks	123.100	+ 1.322	+ 8.546
Member Bank Reserves:			
Required	40.356	+ .428	– 3.524
Excess (Deficiency)	.169	+ .071	– .114
Total Reserves Held	40.525	+ .499	– 3.638
Net Borrowed Reserves	1.535	– .125	+ 1.020
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	100.062	– .726	+26.419
Monetary Aggregates†		**% Change Since Three Months Ago***	**% Change Since Year Ago**
M-1A	363.9	– 2.9‡	– 0.6‡
M-1B	427.4	+ 10.9‡	+ 10.8‡
M-2 (April '81)	1,733.6	+ 12.3	+ 11.8
L (February '81)	2,421.2	+ 12.7	+ 10.4

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

	3 Months	6 Months	1 Year
Offering Rates 5/29/81			
‡U.S. Treasury Bills	14.90%	14.00%	13.10%
* Federal Agencies	14.50	15.00	15.10
* Project Notes—Taxfree (46% Taxable Equivalent)	14.72	13.43	13.06
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	17.15	16.25	

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	16.00%	Jun.	16.85%
15- 29 days	16.38	Jul.	16.70
30- 59 days	16.25	Aug.	16.30
60- 89 days	16.00	Sep.	16.10
90-119 days	15.00	Oct.	15.50
120-239 days	15.00	Nov.	15.00
240-270 days	12.00		

‡Industrial Paper—Prime			
30- 89 days	16.50%	†Federal Funds Effective Rate	17.50%
90-120 days	16.25		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'81	$ 2,854	$ 2,731	$ 2,572
Gross National Product (1972 Dollars)*	1st Q'81	$ 1,516	$ 1,486	$ 1,502
Percent Change, Annual Rate	1st Q'81	8.4%	3.8%	3.1%
Change in Consumer Prices (all urban consumers)*	Apr '81	4.8%	7.2%	10.8%
Change in Producer Prices*	Apr '81	9.6%	15.6%	9.6%
Civilian Employment (Thousands of Persons)†	Apr '81	98,976	98,412	97,225
Unemployment as % of Civilian Labor Force†	Apr '81	7.3%	7.3%	6.9%
Personal Income*	Apr '81	$ 2,351	$ 2,338	$ 2,102
Leading Indicators Composite Index (1967=100)†	Apr '81n	138.3	137.8	126.2
Industrial Production Index (1967=100)†	Apr '81	152.8	152.2	148.3
Net Change in Consumer Installment Credit†	Mar '81	$ 3.11	$ 2.00	$ 0.65
U.S. Merchandise Trade Balance†	Mar '81	$ 0.48	–$ 2.16	–$ 2.68
Plant and Equipment Expenditures*	2nd Q'81	$317.29(a)	$310.59(a)	$294.36
Private Housing Starts (Thousands of Units)*	Apr '81	1,343	1,289	1,044
New Construction Expenditures*	Mar '81	$ 248.0	$ 254.0	$ 237.1
Total Business Inventories†	Mar '81	$ 471.8	$ 470.8	$ 443.0
Total Business Sales†	Mar '81	$ 345.9	$ 346.4	$ 310.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

currency bloc and increase the influence of Germany in the EEC while adding to the already heavy burdens on the Bundesbank in maintaining currency stability. In either event, the prospects for the EMS are for substantial change.

Germany's problems are numerous as well. Although inflation is relatively low (5.5 per cent year-over-year in March), the economy is in recession and is expected to remain so until late 1981. Real GNP will fall by perhaps 1.5 per cent this year. Further, the country's external accounts will also be in red ink for another year, since a current account deficit of over $10 billion is expected. In addition, the Bundesbank has intervened heavily this year in the foreign exchange markets in an attempt to support the DM as well as other troubled EMS currencies. This is the burden which automatically falls on the strongest economy in any fixed exchange rate system just as it did on the United States in the years of the Bretton Woods and the short-lived Smithsonian systems.

The weakness of the Italian lira which required the realignment of central parities on March 23 has continued. Recently, of course, the Italian currency has relinquished center stage to the French franc. The lira's decline has been striking, nonetheless. On

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (5/13/81)	118,043	+ 1,912	+22,214
New York City (5/13/81)	28,908	+ 242	+ 6,381
Commercial Paper (5/13/81)	142,064	+ 2,457	+15,774

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

	Latest Week	Change Since Week Ago	Change Since Year Ago
Weekly Reporting Large Commercial Banks			
Nationwide (5/13/81)	175,531	– 1,343	+16,335
New York City (5/13/81)	51,385	– 735	+ 4,486

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/13/81)	433,312	– 1,604	+37,445
New York City (5/13/81)	102,817	– 813	+13,362

Financial Markets

	Friday 5/29/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	14.99%	– 1.65	+ 7.08
180-Day Bills†	14.00	– 1.50	+ 5.83
Longest Bills†	13.15	– 1.21	+ 4.62
Recent Issues:			
15⅝s 5/31/83 (When Issued)	13.18	NA	
13⅜s 3/31/85	14.00	– 1.32	
14½s 5/15/91	13.42	– 1.52	
13⅞s 5/15/11	13.00	– .36	
Municipals:			
Bond Buyer–20 Bond Index* (5/28/81)	10.64%	– .09	+ 2.91
Blue List Total ($ Million)	$ 844	+ $ 6	– $ 118
30-Day Visible Supply ($ Million)	$1,816	+ $133	– $1,036
Total	$2,660	+ $139	– $1,154
Corporates:			
Moody's Aa Composite (5/28/81)	14.96%	+ .05	+ 3.14
Money Mgr.–30-Day Supply ($ Million)	$6,274	+ $901	+ $3,635
Stocks:			
Dow-Jones Averages:			
Industrials	991.75	+ 20.03	+ 140.90
Transportation	435.79	+ 9.26	+ 166.56
Utilities	107.67	+ .76	– 2.61
65 Stocks	387.14	+ 7.27	+ 79.12
Standard and Poor's 500 Stocks	132.89	+ 1.56	+ 21.65
N.Y.S.E. Composite Index	76.98	+ .72	+ 13.56
N.Y.S.E. Avg. Daily Vol. for Week (000's)	53,213	+10,227	+ 14,140

* 46% Taxable equivalent 19.70%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/29/81	Week Ago
Overnight	17.50%	19.63%
1 month	17.81	19.75
3 month	17.63	19.75
6 month	16.75	18.75
1 year	16.13	17.38
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.80%	15.00%
Long Term (7 to 15 yrs.)	14.55	14.75

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/29/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02618	38.20
Canada	.8323	1.2015
Denmark	.1365	7.3270
France	.1807	5.5350
Germany	.4297	2.3270
Italy	.0008650	1156.00
Japan	.004466	223.90
Mexico	.04134	24.19
Netherlands	.3865	2.5870
Switzerland	.4827	2.0715
U.K.	2.0705	.4830

February 2 of this year, the lira stood at close to 1,000 to the dollar; on March 23, it had reached 1,040 and May 22, 1,149—a 10.6 per cent decline in just two months.

In addition to interest rates, rapidly rising prices are a factor in the weakening of the lira. Inflation in Italy is the highest in the EEC, with February's consumer prices 20 per cent above the same month the year before. Export volume has fallen seven per cent below the previous year, and in 1980, the current account deficit probably reached close to $10 billion. Real growth is expected to drop by one per cent in 1981. Further, the resignation of the Italian government will introduce an interregnum while a new government is selected—the 41st since World War II. These difficulties have reawakened concern in some quarters about Italy's economic and political stability. The lira, too, in spite of the wider range in which that currency is allowed to fluctuate within the EMS, may again fall below the new limit.

. . . And The Pound

The pound sterling has declined by almost eight per cent against the dollar since March 23 and about 12 per cent since the beginning of February. The rate of inflation, which had been slowing, picked up to an 18 per cent annual rate in March, while government borrowing has increased as well. The United Kingdom is currently in recession; unemployment is running at a 10.1 per cent rate (2.4 million jobless) and has already become a major political issue.

It would thus appear that a strong dollar is not an ephemeral phenomenon. High real interest rates in the United States will continue to make the dollar attractive while political and economic uncertainties in France and Italy, along with recession in Germany, Italy and the United Kingdom will encourage the flow of funds to safer and more stable havens. Even the currencies of the healthier economies of Switzerland and Japan will feel the powerful effects of these financial flows. H

THE CORPORATE TRUSTEE ENDURANCE TEST.

DURABILITY:
When picking a corporate trustee for a bond issue—whether you're a corporation or municipality—pick carefully. Because you're going to have to live with that trustee a long time.

Manufacturers Hanover is one of the nation's largest and most experienced bond trustees. We have the expertise to anticipate problems before you even close the issue. By identifying trouble spots early, everything will run more smoothly. Year after year.

SUREFOOTEDNESS:
As corporate trustee, Manufacturers Hanover moves quickly in handling the day-to-day administrative tasks of overseeing a bond issue.

We consistently meet the NYSE and SEC requirements for the prompt transfer of certificates from seller to buyer. With TRANSIFAC,℠ our electronic nerve center, each entry of data is "key verified"—entered twice by two different operators and then compared automatically by computer. It's the most accurate bondholder record-keeping system available.

ADAPTABILITY:
If a new or unusual change suddenly affects your company, Manufacturers Hanover reacts quickly in interpreting and analyzing indenture provisions. We know the alternate ways of handling many situations to help ensure the continued workability of the issue.

SENSE OF DIRECTION:
Our operations center is located in the heart of Wall Street, where most security trades take place—a location that facilitates the issuance and transfer of certificates for both you and your bondholders.

DETERMINATION:
No corporate trustee is more committed to service than Manufacturers Hanover. In addition to your own individual account officer, a backup officer—familiar with the requirements of your account—is ready to help you. Anytime.

If you want a corporate trustee who can meet every test, talk to Manufacturers Hanover. For more information on our whole range of indenture trusteeship services, call Joseph Unger, Vice President, at (212) 623-7542. Or write us at 40 Wall Street, New York, N.Y. 10015.

IF YOUR TRUSTEE CAN'T PASS IT, TALK TO MANUFACTURERS HANOVER.